

The Weekly Observer

July 1-5, 2024

The 127th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the MOD's AI and cyber strategy, the Japan-Cambodia foreign ministers' meeting, JSDF-related scandals, rumors of the LDP presidential election schedule, Kishida's speech at the Asian Business Summit, national pension projections, the MIC-KDDI partnership for a Japanese LLM, record-high JGB yields, the BOJ's TANKAN, and more.

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I. News of the Week

1. MOD Issues AI and Cyber Strategy

- On Tuesday, the Ministry of Defense (MOD) [issued](#) the “Basic Guidelines Promoting the Utilization of AI” and the “Comprehensive Strategy on Cyber Talent.”
- The guidelines [indicated](#) seven areas for AI use — target detection and identification; collection and analysis of information; command and control; rear-end support; unmanned assets; cybersecurity; and improvement of administrative operations.
- The guidelines also noted risks involved with AI and pointed out that the MOD would not develop or deploy defense equipment in a way inconsistent with international or domestic law.
- The strategy [stated](#) that the MOD will establish a new recruitment pool in the JGSDF for cyber unit cadets starting in FY2025. It also outlines an appointment system to develop veteran talent capable of commanding units, such as enabling lower ranking officers to specialize in cybersecurity.
- The MOD will also consider relaxing physical test requirements after appointment to join the cyber unit and the refurbishment of a reserve system, in an effort to attract more private sector talent to join the forces.
- On Friday, Minister of Defense Kihara Minoru [revealed](#) that the ministry will establish a committee on July 8 to reinforce the talent pool, focusing on making the job more attractive (environment) and making the job more efficient (AI, etc.).

2. Foreign Policy Developments

- On Saturday, Minister for Foreign Affairs Kamikawa Yoko [met](#) with Cambodian Foreign Minister Sok Chenda Sophea during her visit to the country, where she announced new cooperation in social infrastructure development, maritime connectivity, and a landmine initiative to raise international awareness on the issue.
- On Friday, Vice Minister for Foreign Affairs Okano Masataka [met](#) U.S. Ambassador to Japan Rahm Emanuel and expressed extreme regret over the recent prosecutions and arrests of U.S. military personnel for sex-related crimes in Okinawa. He requested that the U.S. side strengthen discipline among forces.
- Chief Cabinet Secretary Hayashi Yoshimasa [revealed](#) that a PRC marine research vessel set up a buoy inside Japan’s continental shelf on the north side of Okinotori Island, Tokyo. He asked that Beijing make clear the purpose of setting up the buoy.

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- On Wednesday, the senior officials of Japan, Australia, India, and the United States [met](#) to review progress from the May 2023 summit. They [reaffirmed](#) the Quad's commitment to the Indo-Pacific region, including most recently through coordinated humanitarian and disaster relief assistance to Papua New Guinea after the landslide.
- On Tuesday, Kamikawa [met](#) with Sri Lankan Foreign Minister M.U.M. Ali Sabry in Tokyo and informed the Sri Lankan side that the GOJ would promptly resume yen loans for existing projects once the MOU on debt restructuring is signed with the Official Creditor Committee (OCC).
- On Monday, former Speaker of the House Kono Yohei [led](#) a delegation of The Association for the Promotion of International Trade Japan to Beijing, where they met Vice Premier He Lifeng. Kono voiced the Japanese side's desire for the resumption of travel visas and an explanation on the anti-espionage act.

3. Defense/Security Developments

- On Friday, Kihara [revealed](#) that he instructed the inspector general to begin investigations into the JMSDF and Kawasaki Heavy Industries' alleged scandal where the company pooled secret funds through fictitious transactions to pay off JMSDF officers as "commissions" for the deals.
- *Nikkei* [reported](#) Thursday that there are growing voices within the LDP calling for a further postponement of defense tax hikes — scheduled to take place sometime after FY 2026 — as tax revenue hit a record-high in 2023 for a fourth consecutive year.
- The MOD announced that it [signed](#) a contract with the U.S. Government for the sale of Joint Air to Surface Standoff Missiles (JASSMs) for F-15s in March and that it [conducted](#) tests for domestic high velocity glide vehicles for island defense.
- On Wednesday, the MOD [announced](#) that it would create a committee headed by the vice minister of defense and chief of staff of the Joint Staff to discuss the creation of the Joint Command, with individual working groups for specific functions of the HQ.
- The U.S. Department of Defense [announced](#) that it will modernize tactical aircraft based in Japan over several years, investing over \$10 billion to upgrade F-15s, F-16s, and F-35A/B at Kadena Air Base, Misawa Air Base, and MCAS Iwakuni.
- The JMSDF [announced](#) that it held joint exercises with the U.K. Royal Navy and the Royal Australian Navy on July 1-2 off the coast of Fiji and Tonga. Meanwhile, *Sankei* [reported](#) that the JSDF's Self-Defense Fleet plans to sign a "sister unit" agreement with the Philippine Navy, similar to the agreement with the U.S. Navy.

4. Political Developments

- *Mainichi* [reported](#) Saturday that the LDP presidential election may be held on September 20, which is the earliest it can be held given election rules (within ten days of end of term) and the best date given the UN General Assembly on September 24.
- *Nikkei* [reported](#) Friday that the Government Pension Investment Fund (GPIF), the largest public fund investor in Japan, hit a record-high earnings of ¥45.42 trillion in FY 2023, almost six times the expected amount in 2019 due to high stock prices.
- The LDP's working team toward amending the Constitution [held](#) its first meeting toward drafting the emergency powers clause, which would enable Diet members to extend their terms in office during national emergencies and disasters.
- On Wednesday, Kishida [indicated](#) his intention to meet with plaintiffs of the case in which the court ruled the former Eugenic Protection Law as “unconstitutional” and ordered the government to compensate those forcibly sterilized under the law.
- On Monday, Kishida [announced](#) that the GOJ plans to soon begin the “reconstruction support discount” to subsidize 70 percent of accommodation fees for tourists visiting disaster-stricken areas in the Noto Peninsula.
- Kishida [visited](#) Noto Peninsula for the third time since the disaster struck in January and for the first time since February. The GOJ [established](#) the 150-officer strong “Innovative Reconstruction Task Force” the same day.

5. Kishida Announces AI and Decarbonization Plan for ASEAN

- On Friday, Kishida [attended](#) the Thirteenth Asian Business Summit, hosted by the Japan Business Federation (*Keidanren*).
- Kishida [announced](#) during the speech that he aims to support ASEAN countries work with Japanese startups to build their own LLMs for AI development, in part to ensure ASEAN sovereignty in the AI space amid strong global competition.
- The prime minister also discussed plans to implement the goal of developing 100,000 highly skilled digital talent in Asia in the next five years.
- On decarbonization, Kishida revealed that the second “Asia Zero Emission Community” (AZEC) summit will be held in Laos in the fall.
- He stated that the leaders will aim to finalize an action plan during the summit for the next ten years toward attracting investment into the decarbonization field.

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6. Government Projections Show Pensions to Fall in Next Five Years
 - On Wednesday, the Ministry of Health, Labor and Welfare (MHLW) [revealed](#) its “Financial Implications of the Reform Options” report, released every five years to project the long-term outlook of government pensions.
 - The projections [showed](#) that pension amounts would fall 6 percent if economic growth remained consistent at current levels, while it would fall 18 percent if growth rates stagnated.
 - The rates of decrease in pension amounts improved from the last report in 2019, likely due to more employment among seniors and women and an increase in reserves due to higher stock prices.
 - The ministry [decided](#) against extending the premium payment period from forty years to forty-five years after projections showed that costs would increase by around ¥1 million over five years while payments would rise by 6.9-7.1 points (scenario-based).
 - The MHLW will discuss the results of this report with the ruling coalition over the fall ahead of pension system reform. The GOJ will then submit legislation early next year to introduce pension reform.
7. Economic Security and Tech Developments
 - *Nikkei* [reported](#) Friday that chip startup Novel Crystal Technology began developing technology reducing manufacturing costs for next-generation chip wafers by 70 percent, which cuts the amount of precious metals used and can be made at 1.5 times the current size.
 - On Thursday, the Semiconductor Equipment Association of Japan (SEAJ) [announced](#) that Japan sold ¥4.25 trillion in chip equipment in FY 2024, a 15 percent increase from FY 2023, an almost ¥220 billion increase from January projections largely due to AI data-center related demand for chips.
 - *Nikkei* [reported](#) that the GOJ plans to establish new subsidies and a procurement program to domestically produce raw materials for antibiotics, which Japan relies almost entirely on China for. Antibiotics were identified as a specially designated commodity under the Economic Security Promotion Act.
 - *Nikkei* [reported](#) Wednesday that Kioxia Holdings will begin manufacturing the most advanced memory chips (128 megabytes) at its Yokkaichi facility this month, as it aims to capture AI-related demand for data storage units.

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- On Tuesday, Renesas Electronics [announced](#) that its acquisition of U.S. software company Altium was approved by the relevant authorities like the Committee on Foreign Investment in the United States (CFIUS). The buyout is expected to be completed on August 1 after approval by Altium's shareholders and Australian court.
- *Nikkei* [reported](#) Sunday that the Ministry of Internal Affairs and Communications and KDDI will jointly develop a Japanese-language generative AI model, utilizing data from MIC-affiliated organizations and KDDI's AI technology.

8. Key Economic/Financial Developments

- On Friday, the Japan Fair Trade Commission (JFTC) [recommended](#) measures to Toyota Motor Corp. to prevent the recurrence of violations of the Subcontract Act, including letting business partners keep molds for no charge and unlawfully returning products after delivery.
- On Thursday, Minister of Economy, Trade and Industry (METI) Saito Ken [held](#) a meeting with Sultan Ahmed Al Jaber, CEO of Abu Dhabi National Oil Company (ADNOC), and UAE Minister of State for Foreign Trade Thani bin Ahmed Al Zeyoudi, signing a memorandum of cooperation on joint oil storage and a general agreement on credit line under GREEN operations between the Japan Bank for International Cooperation and ADNOC.
- On Wednesday, the Nikkei Stock Average [hit](#) ¥40,580, up ¥506 from the previous day as foreign investors, who have become more risk averse due to the rise in U.S. tech stocks, stepped up purchases of Japanese equities. The index [hit](#) ¥40,000 for the first time in three months on Tuesday.
- The newly-issued twenty year bond yield [hit](#) 1.935 percent, up 0.015 percent from the previous day and the first high since July 2011 as investors sold bonds expecting lower demand-supply amid announcements of thirty-year bond bids and the BOJ's cuts in bond purchases. Meanwhile, the nominal interest rate (annual payback) on ten-year JGBs issued in July was [raised](#) to 1.1 percent from 0.8 percent in June, reaching 1 percent for the first time since April 2012.
- On Monday, the Japan Aerospace Exploration Agency (JAXA) [successfully launched](#) the domestically manufactured "H3" launch vehicle, which reached its target orbit around the observation satellite "Daichi IV."
- On Sunday, the Bank for International Settlements (BIS) [stated](#) in its annual economic report that "broad-based dollar appreciation... has been especially marked vis-à-vis the yen," [noting](#) rate differentials may put pressure on exchange rates.

9. State of the Economy

- On Friday, MIC [announced](#) that real consumption in May fell 1.8 percent from the same month last year to ¥290,328, the [first decline](#) in two months as travel consumption fell and food consumption was down due to inflation.
- The Cabinet Office [announced](#) that the preliminary composite index (CI) in May rose 1.3 points from the previous month to 116.5, the third consecutive month on the rise. The overall assessment was [raised](#) upward from “shift to fall” to “halting to fall.”
- On Monday, the Bank of Japan (BOJ) [announced](#) in its Short-Term Economic Survey of Enterprises in Japan (TANKAN) for June that the diffusion index for large manufacturers improved two points to +13, while the index fell one point to +33 for non-manufacturers. The index for non-manufacturers [fell](#) for the first time in four years due to weak consumption and shortage-induced labor costs.
- The Cabinet Office [revised downward](#) the January-March period’s real GDP value, from -0.5 percent to -0.7 percent from the previous quarter and -1.8 percent to -2.9 percent on an annual basis, likely [due](#) to the public investment factor now included in the calculation via the Ministry of Land, Infrastructure, Transport and Tourism stats.
- *Nikkei* [reported](#) that the FY 2023 ordinary account tax revenue is expected to hit a record high for the fourth consecutive year, exceeding ¥71.14 trillion hit in FY 2022 as corporate and income taxes rose off the backdrop of good corporate performance.

II. Public Opinion Poll

- A *Nikkei* poll [released](#) on Monday showed Cabinet approval at 25 percent, down three points from May, while disapproval remained at 67 percent.
 - 36 percent of respondents said that they want the prime minister to focus on inflation relief; 33 percent said the economy in general; and 31 percent said childcare, education, and policies addressing the declining birth rate.
 - 84 percent of respondents said that they do not believe the revised Political Funds Control Act will not prevent a recurrence of “politics and money issues,” while 7 percent said they do believe it will.
 - 80 percent of respondents said that the fixed income tax cut in June will not be effective as an inflation relief measure, while 13 percent said it will be effective.
 - 68 percent of respondents said that the GOJ’s decision to extend the utility subsidies will not be effective as an inflation relief measure, while 25 percent said it will be effective.
 - 65 percent of respondents said that they support the introduction of the active cyber defense legislation, while 10 percent said they oppose it.

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- 66 percent of respondents said that they disapprove of the Diet's activities, while 25 percent said they approve of it.
- 56 percent of respondents said that they want Kishida to continue as prime minister until his term as party president ends in September; 26 percent said they want him out immediately; and 10 percent said as long as possible.
- 40 percent of respondents said that they want a LDP-Komeito coalition but a tighter margin between the ruling and opposition parties; 26 percent said a change in government; and 21 percent said a continuation of the ruling coalition.
- 39 percent of respondents said that the Lower House should be dissolved by the fall; 19 percent said there is no need to rush; 15 percent said by the end of the year; 11 percent said the same day as the Upper House election next summer; and 7 percent said by next spring.
- 31 percent of respondents said that they plan to vote for the LDP in the upcoming general election; 18 percent said undecided; 14 percent said the CDP; 10 percent said *Ishin*, 4 percent said *Reiwa Shinsengumi*; 3 percent each said Komeito, JCP, and the DPFP; and 1 percent each said the SDP and *Sanseitō*.

- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	31 (+4)
Constitutional Democratic Party	9 (-3)
Japan Innovation Party (<i>Ishin</i>)	9 (±0)
Komeito	3 (-2)
Japan Communist Party	4 (+1)
Democratic Party for the People	2 (±0)
Reiwa Shinsengumi	2 (±0)
Social Democratic Party	0 (±0)
Suffrage Party (<i>Sanseitō</i>)	1 (±0)
Independent (No Party)	33 (±0)